

Multi-Year Forward Resource Adequacy Requirement – Issues for Consideration

Presented on behalf of the
Alliance for Retail Energy Markets
May 2, 2014



Overview

- Impacts of Multi-Year Forward Resource Adequacy (RA) Obligations on Electric Service Providers (ESPs)
- Tools Needed to Manage Those Impacts
- Cost Allocation Mechanism (CAM) considerations

Impact of Multi-Year Forward RA Obligations

- ESPs are subject by law to the RA requirements. Currently,
 - 100% of Local RA and 90% of summer months system RA by October of prior year
 - Remaining obligations met monthly
- Two distinctive differences between ESPs and utilities
 - Contestable Load
 - Customers may leave direct access service to return to utility service
 - Customers may move from one ESP to another
 - Customers want differing terms and conditions
 - No mechanisms to assure rate recovery
 - Purchasing risks and portfolios must be managed to meet the changing preferences of customers, consistent with requirements

Impact of Multi-Year Forward RA Obligations

- Transacting for RA as an ESP is complex in the current bilateral structure:
 - Must buy from utilities who own and control much of the resource base
 - Must buy from non-utility generators
 - Must buy from out-of-state
 - Must take into account renewable purchases
 - CAM
- And looking to get more complex
 - System and local PLUS
 - Flexible capacity requirements are being incorporated – although many details remain
 - CAM/CHP complexities impacting other aspects of RA, such as Path 26 allocations
- Penalties for non-compliance are high
 - Non-compliance has not been widespread, but nevertheless.....

Risk Management Tools To Manage RA Are Needed

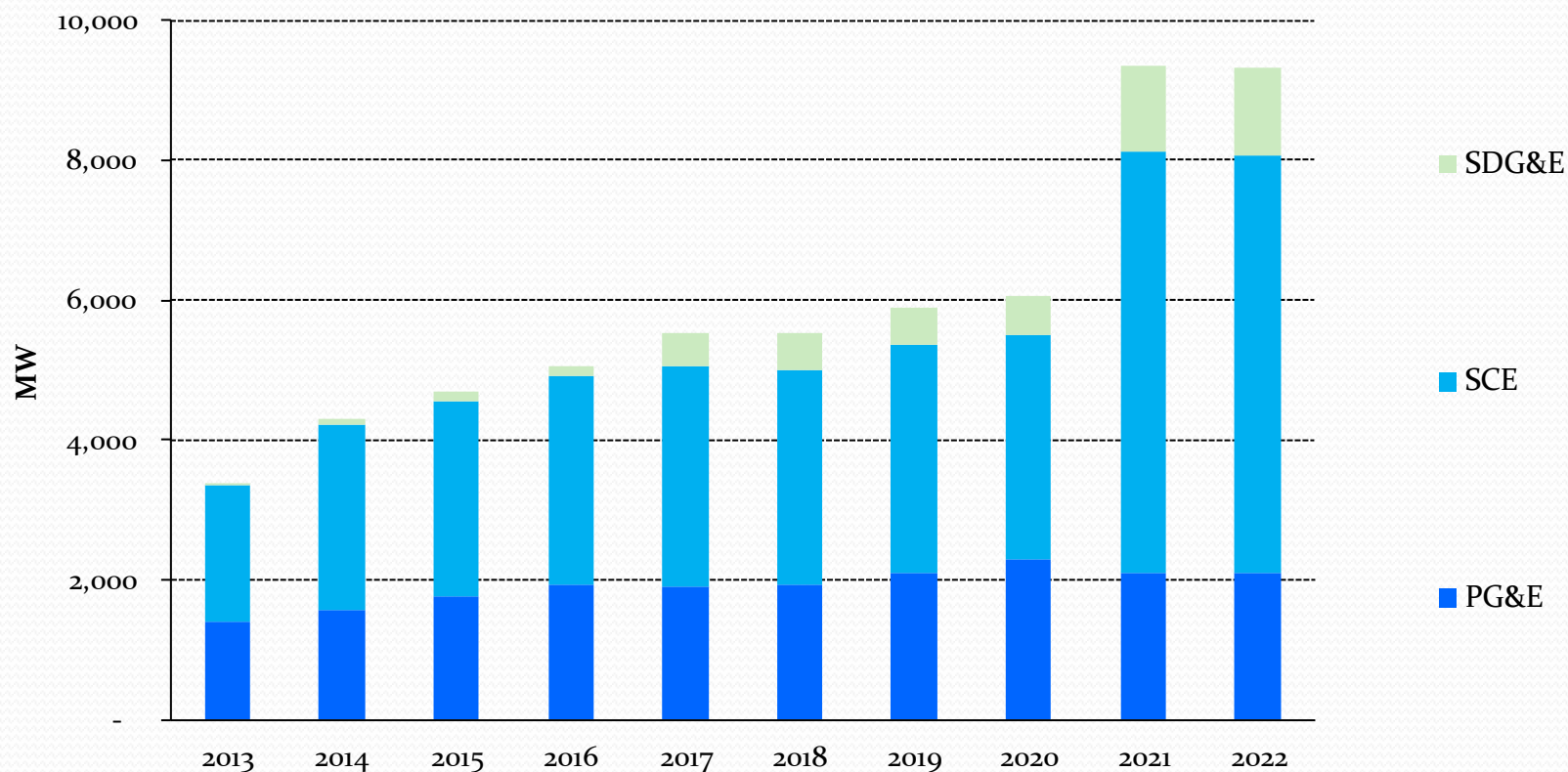
- Pricing transparency
- Transactional ease; ability to manage position as load migrates
- Market Liquidity; hedging forward capacity costs
 - These are the tools that a centralized capacity clearing market would create
 - AReM continues to support the implementation of such a market, but recognizes that it not likely to occur any time soon
- Serious re-consideration about imposing multi-year forward obligations must occur in the absence of market mechanisms to allow competitive entities to manage this procurement
- In the absence of a centralized capacity market, there are other tools that can and should be considered and implemented

Risk Management Tools To Manage RA Are Needed

- What are some of the other types of tools that can be put in place:
 - Layering of the multi year forward obligation (lower in the forward years)
 - Clear rules about how and when the utilities will make their excess capacity available
 - Waivers circumstances clearly defined; e.g. excessive cost for supply or credit or collateral; lack of supply availability

CAM-Related Issues

Approved CAM Additions (estimated phase-in)



Source: MWs per CPUC decisions; phase-in MRW estimate

CAM-Related Issues

- Currently, nearly 11,000 MW have been approved for CAM (approximately 20% of system peak)
- Uncertainty about timing of existing CAM and future addition makes portfolio management difficult
- Increasingly difficult as procurement obligation is further forward
- For instance:
 - When will we know how much CAM we are getting in relation to the forward obligation?
 - Who bears the risk if there is more (or less) CAM than forecasted?
- Even more fundamentally, if ESPs are meeting their RA obligations, why should there be CAM at all?